

REGULATORY INFORMATION DISTRIBUTION SYSTEM (RIDS)

ACCESSION NBR: 8404170396 DOC. DATE: 83/12/31 NOTARIZED: NO DOCKET #
 FACIL: 50-397 WPPSS Nuclear Project, Unit 2, Washington Public Powe 05000397
 50-460 WPPSS Nuclear Project, Unit 1, Washington Public Powe 05000460
 STN-50-508 WPPSS Nuclear Project, Unit 3, Washington Public 05000508

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DENTON, H.R. Office of Nuclear Reactor Regulation, Director

SUBJECT: Annual Financial Rept 1983, W/840410 ltr.

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NOTES: Standardized Plant. PNL 1cy FSAR AMDTS & NON PROP REPTS. 05000508

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Washington Public Power Supply System

P.O. Box 968 3000 George Washington Way Richland, Washington 99352 (509) 372-5000

Docket Nos: 50-397 - G02-84-221
50-460 - G01-84-103
50-508 - G03-84-222

April 10, 1984

Mr. Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Denton:

Subject: SUPPLY SYSTEM NUCLEAR PROJECTS NO. 1, 2, and 3
ANNUAL FINANCIAL REPORT

Enclosed for your information, as required by 10CFR50.71, are three (3) copies of the Washington Public Power Supply System 1983 Annual Report. The financial statements of the Supply System's Nuclear Projects are not certified by our auditor Ernst and Whinney, in view of certain facts, discussed in the Annual Report, with which the Nuclear Regulatory Commission is already familiar.

Very truly yours,



G. C. Sorensen, Manager
Regulatory Programs

CVH/kd

Enclosures: (3) As stated

cc: R. Auluck, NRC
T. Kenyon, NRC
A. Vietti, NRC
N. Reynolds, Bishop, Liberman, Cook, Purcell & Reynolds

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Our cover

During a year of uncertainty, Plant 2's construction completion and licensing stand as a bright example of Supply System tenacity.

LETTER FROM THE EXECUTIVE BOARD CHAIRMAN

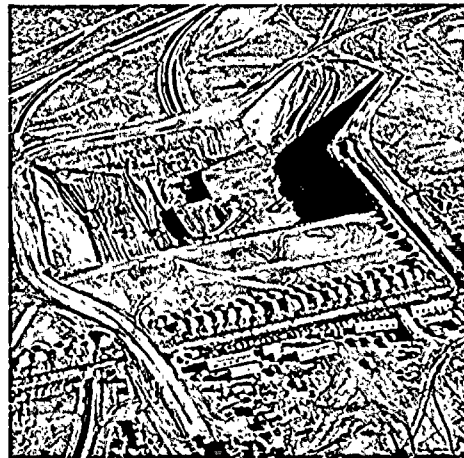
The December 20, 1983, decision by the U.S. Nuclear Regulatory Commission to grant an operating license for the Supply System's Plant 2 represented more than the culmination of 11 years of construction work. That licensing, the subsequent fuel loading and attainment of initial criticality on January 19, 1984, provided the region with a needed sign of recovery for an organization that had witnessed default on two of its power plants and a three-year delay of a third during 1983.

The mission of the Supply System since it was created in 1957 has been to respond to the power requirements of the region as requested by its member utilities and the Bonneville Power Administration. The clear mandate in 1983 was to complete Plant 2—an 1,100 megawatt nuclear power plant that is an integral part of the Northwest Regional Power Plan. Even though

the Supply System was effectively barred from the nation's financial markets because of litigation surrounding contractual agreements for power from its plants, net-billing agreements with BPA made it possible to complete the construction of Plant 2.

Through a program of rigorous tests by both the NRC and the Supply System, and an independent technical review, Plant 2 has proved to be solidly constructed. Its startup and operations staff is recognized as one of the most qualified in the nation. More than 3,800 years of nuclear industry experience will be behind the controls when Plant 2 begins commercial operation in 1984.

Plant 2 will join two other Supply System plants with excellent operations records—the Packwood Lake Hydroelectric Project and the Hanford Generating Project. Together, they produced about



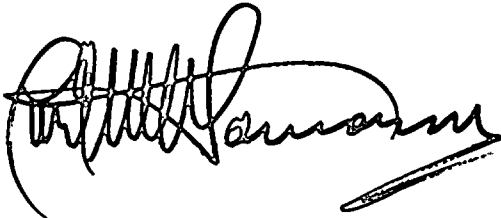
Ten years ago Plant 2 was no more than a large hole in the ground in the Hanford desert. More than 194,000 cubic yards of earth were moved during site excavation, January 1973.



THE SUPPLY SYSTEM IN 1983

3,653,896,800 kilowatt hours of electrical power during 1983.

In a year where the destiny of four of our nuclear construction projects was being formed in the region's courtrooms, Plant 2's construction completion and licensing stand as a bright example of the uncompromising attitude toward quality, safety and cost-consciousness by the Supply System's Executive Board and staff.

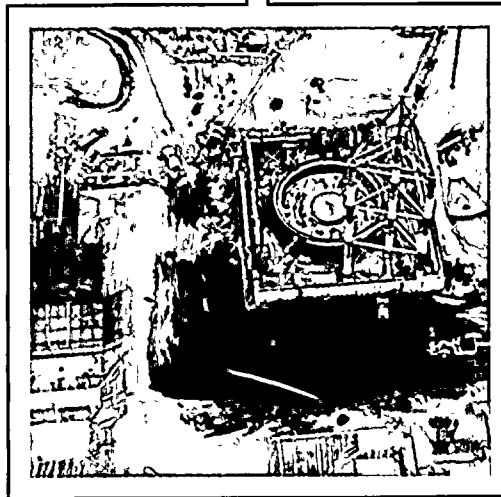


Carl M. Halvorson
Chairman Executive Board

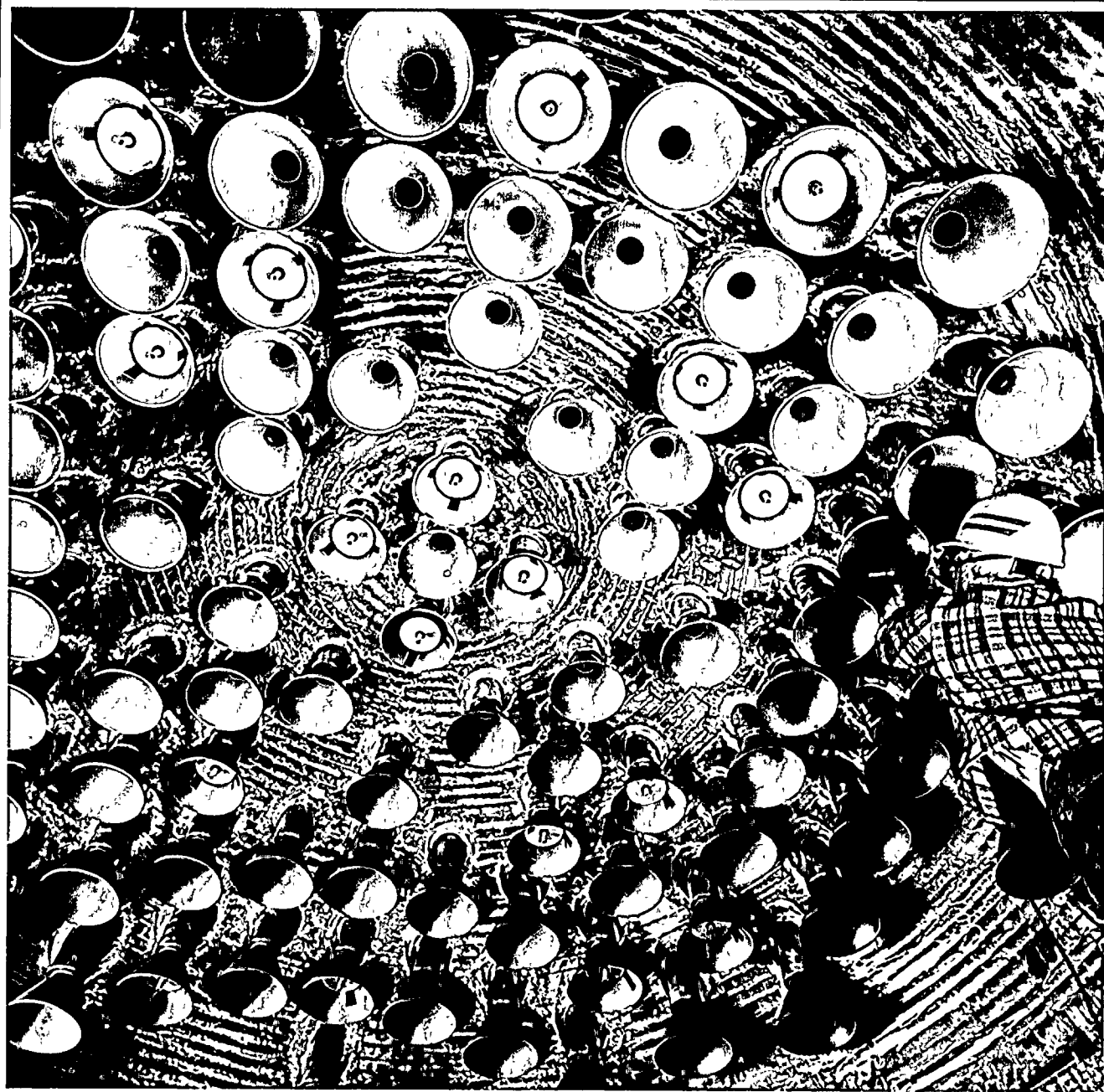
For the Supply System, the most significant ruling among the numerous court cases arising out of the termination of Projects 4 and 5 came on June 15, 1983. A decision from the Supreme Court of Washington and subsequent rulings effectively nullified the Participants' Agreements for Projects 4 and 5 and thus removed the security behind the \$2.25 billion debt for those projects. That decision resulted in the Supply System's unavoidable admission in July 1983 that it could not pay the 4 and 5 Projects debts when they became due and payable.

While it is still unclear when, how, or if the issues around Projects 4 and 5 bonds will be resolved, it is, now, in a national forum. Any resolution is beyond the power of the Supply System and will take place in the courts and/or through the actions of public, private or political forces.

A technician carefully inspects one of the 746 uranium fuel bundles after delivery from the manufacturer.



Construction is well underway in October 1973 with the base of the containment building.



During fiscal year 1983 more than \$600 million in interest and principal was paid from proceeds of net-billing arrangements with the Bonneville Power Administration and project participants to Supply System's Projects 1, 2 and 3 bondholders.

Operating projects

The Hanford Generating Project produced about 3.5 billion kilowatt hours of electricity in 1983. The Packwood Hydroelectric Project generated more than 100 million kilowatt hours during the same period. As a public power agency, revenues from these projects cover only the cost of operating the plant and debt service on outstanding bonds.

Plant 2 is expected to join the two generating projects in full commercial operation by July 1984. Present plans call for keeping the plant on line except for scheduled maintenance and surveillance

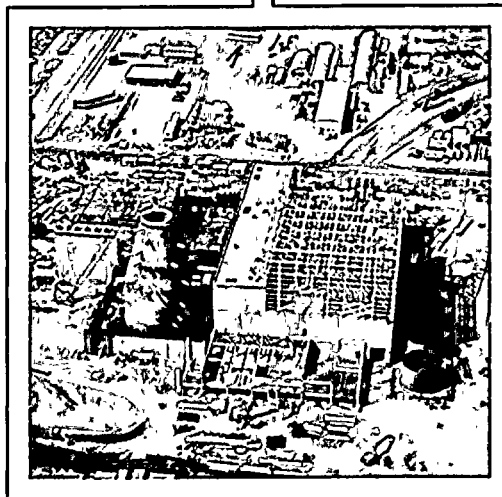
outages, with the first refueling planned for the spring of 1986.

A commitment to excellence

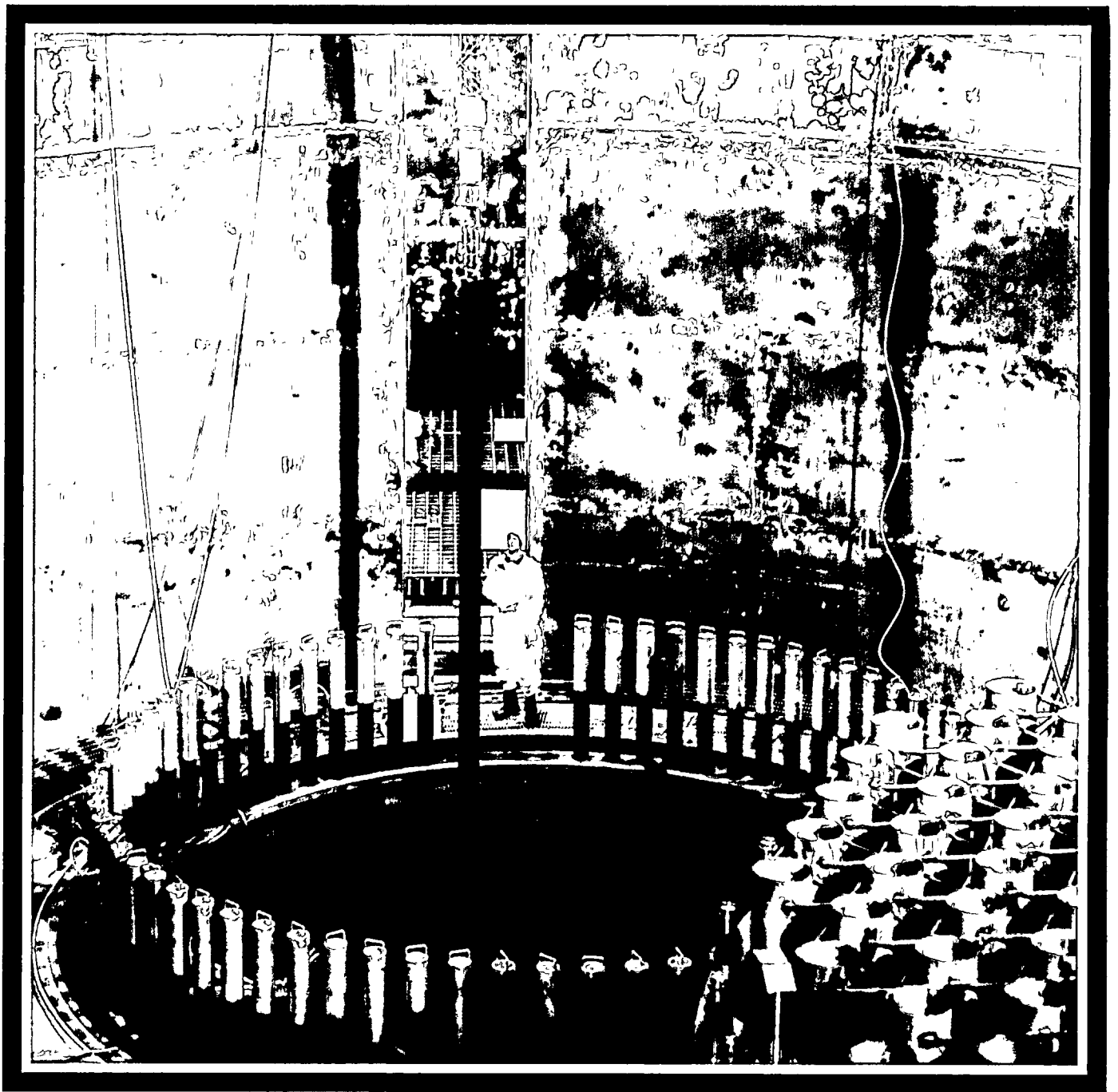
The licensing of Plant 2 on December 20, 1983, was a success story not only for the Supply System but also for the nuclear industry. The Supply System is proud of this accomplishment, but is also deeply aware of the high standards that it and the nuclear industry share.

The Supply System intends to maintain a standard of excellence in the operational reliability and safety of Plant 2. The company's goal is to achieve a mode of operation that places the Supply System in the top ten percent of the nuclear power generating industry. This is not just rhetoric but an integral part of our corporate objectives as set forth in the general budget criteria for fiscal year 1985. To this end the Supply System is striving for a

A technician inspects one of the nearly 100 cones that guide control rods at the top of the Project 3 reactor vessel.



By August 1975 the bottle-shaped containment building, left, was in place and work was well under way on the turbine generator building, right.



70 percent plant capacity factor during its first year of commercial operation. This will be a tough goal, but by setting high standards and guidelines the best possible results will be achieved.

The success of the Supply System requires excellence in all aspects. The link between quality, safety and the ratepayers' economic well-being is obvious. To keep a nuclear plant up and running demands constant caretaking. It is recognized that the cost of poor quality—lack of attention or lack of commitment—would be an unacceptable burden to the ratepayers.

The Supply System has assembled an experienced and well trained operating staff. The people who run Plant 2 range from a plant manager, who is a 23-year veteran of the nuclear industry, to plant operators, who passed their NRC qualifying examinations in late 1983 with high marks. We are

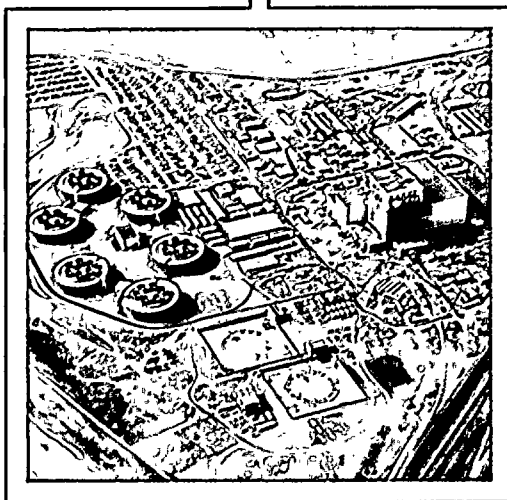
confident that our dedicated managers and skilled operators will run a safe plant at the least cost.

Preserving the assets of Projects 1 and 3

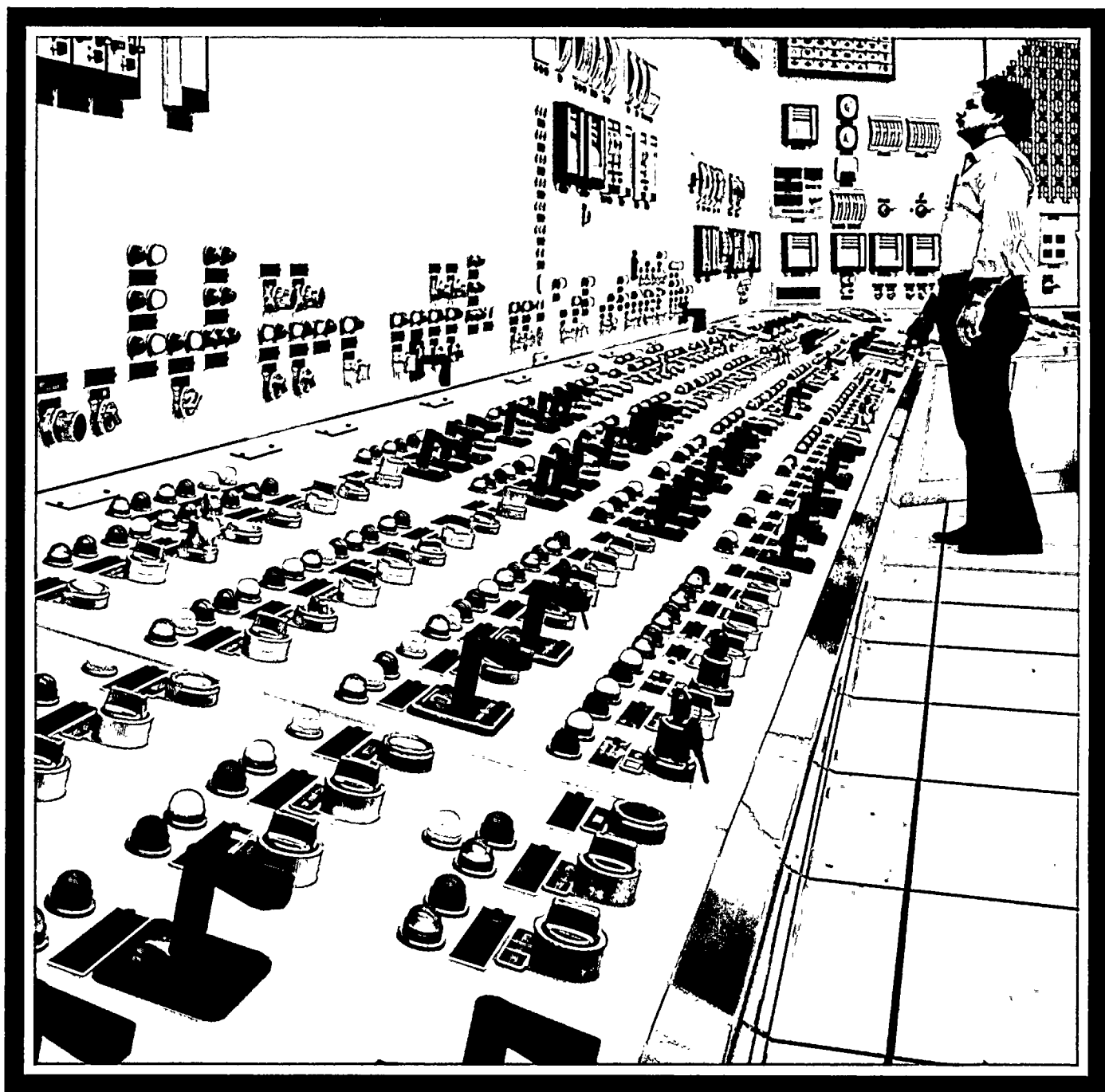
Although construction of Project 3 was delayed in 1983 and Project 1 in 1982, the two plants continue to be considered baseload resources for the Pacific Northwest in all but the most pessimistic electric power forecasts. This position was recently reaffirmed by the Northwest Power Planning Council, the Northwest's principal electric power planning body.

While there are many unresolved issues concerning future financing for these projects, the Supply System has a comprehensive and adequately funded program to ensure that the investment in these two plants is preserved. The effort involves maintaining quality assurance records, addressing key engineering issues, and

While other people in the Pacific Northwest were opening Christmas packages, the first fuel bundle was lowered into the Plant 2 reactor.



In September 1978 more than 4,000 people were working at the Plant 2 site, then at the peak of its construction.



answering questions regarding our safety documents filed with the NRC.

This "down" time is also being put to good use by planning ways to streamline construction when it resumes. Under the Project Enhancement Program at Project 1, we are working to find more efficient ways to complete the plant. This program involves looking at ways of standardizing craft procedures, improving records management and consolidating contracts.

All this work and planning is directed at one goal—assuring that construction will be cost effective when resumed. For planning purposes, the Supply System assumes Project 3 (75 percent complete) will be commercial in December 1989 at the earliest, and Project 1 (63 percent complete) will be commercial in June 1991.

No room for compromise

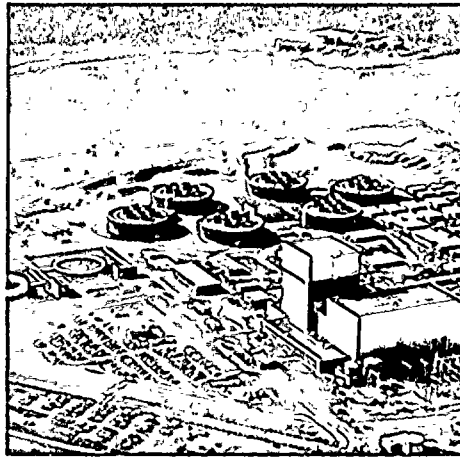
Decreasing electricity demands and in-

creases in the cost of constructing nuclear power plants have plainly changed the Supply System's mission. We've gone from building five plants to one. This shift has placed extraordinary demands on the company—demands that would have overwhelmed an organization not as strong as this one. But the company has emerged tougher and more knowledgeable with the change.

With Plant 2's transition to commercial operation, stability is improving within the organization. The Supply System is clearly focused on operating Plant 2 in the safest, most efficient manner possible in a economic climate that leaves no room for compromise.

Dedication to quality, cost consciousness and safety is not just a slogan at the Supply System. It is an obligation to the public and ratepayers of the Northwest.

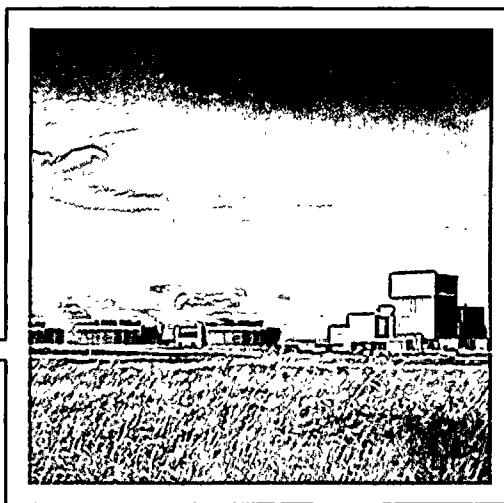
Plant 2's reactor operators spent more than 60 weeks in classroom training, including work on this control room simulator, before receiving their license.



This is how Plant 2 looked during the final stages of construction, September 1983.



Two health physics technicians inspect massive circulating water pipes under the main condenser at Plant 2. Water from the cooling towers flows into the main condenser at about half a million gallons a minute.



"We want to stand at the top of our class." — Jerry Martin, Plant 2 Manager

FINANCIAL SECTION

BALANCE SHEETS

(\$ in thousands)

ASSETS*Current Assets—Operating Fund*

Cash and Investments
 Accounts Receivable
 Prepaid and Other
 Due from Other Projects and Internal Service Fund
 Due from Other Funds
TOTAL CURRENT ASSETS—OPERATING FUND

Restricted Assets—Notes B and C

Special Funds (Primarily for Construction)
 Cash and Investments
 Receivable from Joint Owners and Other Assets
 Due from Other Projects and Internal Service Fund
 Due from Other Funds—Net

 Chemical Bank Legal Fees Escrow Account
 Debt Service Funds Cash and Investments
TOTAL RESTRICTED ASSETS

*Utility Plant and Equipment—
Note B*

In Service
 Improvements to U.S. Government Facilities
 Less Allowance for Depreciation and Amortization

 Construction Work in Progress
 Cost Related to Construction and Termination of Utility Plants ...
 Nuclear Fuel and Prepaid Enrichment Services
 Less Amount Charged to Joint Owners
 Less Allowance For Estimated Unrecoverable Cost

TOTAL UTILITY PLANT AND EQUIPMENT

Other Assets and Deferred Charges

Unbilled Reimbursable Costs
 Unamortized Debt Expense
 Other
TOTAL OTHER ASSETS AND DEFERRED CHARGES

TOTAL ASSETS**LIABILITIES***Current Liabilities—
Operating Fund*

Accounts Payable and Accrued Expenses
 Due to Other Projects and Internal Service Fund
TOTAL CURRENT LIABILITIES—OPERATING FUND

*Liabilities—Payable from
Restricted Assets—Notes B and C*

Special Funds (Primarily for Construction)
 Accounts Payable and Accrued Expenses
 Amounts Withheld from Contractors
 Due to Other Projects and Internal Service Fund
 Due to Other Funds—Net

 Debt Service Funds
 Accrued Bond and Note Interest Payable
 Due to Other Funds—Net

**TOTAL LIABILITIES—PAYABLE FROM
RESTRICTED ASSETS**

*Debt in Default,
Currently Payable*

Revenue Bonds Payable
 Subordinated Revenue Notes

Long-Term Debt—Note C

Revenue Bonds Payable
 Less Unamortized Discount on Bonds—Net
TOTAL LONG-TERM DEBT

*Other Liabilities and
Deferred Credits*

Unearned Revenue
 Deferred Gain on Revenue Bonds
 Due to Other Projects
 Advances and Others
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS

TOTAL LIABILITIES*Commitments and
Contingencies—Notes D and E*

Deficiency in Assets
TOTAL LIABILITIES AND DEFICIENCY IN ASSETS

HANFORD GENERATING PROJECT	PACKWOOD LAKE HYDROELECTRIC PROJECT	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECT NO.'S 4/5	INTERNAL SERVICE FUND
\$ 6,885	\$ 1,262	\$ 4,400	\$ 4,820	\$ 5,420		\$19,067
823	116	1	7			127
1,902	12	2,842	686	280		2,199
9,610	108	27,163	34,326	17,312		
	1,498	34,406	39,839	23,012		21,393
3,588	316	193,906	123,083	108,767	48,170	
		733	267	23,473	7,885	
		11,034	4,331	5,201	15,758	
				242		
3,588	316	205,673	127,681	137,683	71,813	
7,560	712	221,094	119,753	173,560	8,824	
11,148	1,028	426,767	247,434	311,243	167,450	
					248,087	
67,008	12,204	10,661	20,046		1,787	10,773
14,486						
(51,841)	(4,867)		(1,174)			(2,813)
29,653	7,337	10,661	18,872		1,787	7,960
		1,963,730	2,655,687	2,057,951		
		290,701	75,955	48,202	2,424,172	
				(559,031)	(94,889)	
					(2,281,783)	
		2,254,431	2,731,642	1,547,122	47,500	
29,653	7,337	2,265,092	2,750,514	1,547,122	49,287	7,960
470	2,964					
135	25	3,706	3,676	2,683		742
						742
605	2,989	3,706	3,676	2,683		
\$51,016	\$12,852	\$2,729,971	\$3,041,463	\$1,884,060	\$ 297,374	\$30,095
\$ 3,412	\$ 1,383	\$ 31,406	\$ 36,839	\$ 20,012		\$11,517
2,698						6,698
6,110	1,383	31,406	36,839	20,012		18,215
		48,390	40,266	43,855	\$ 123,320	
		18,108	22,890	16,810	20,585	
			1,103	15,373	9,005	
1,088	36	19,263	24,743	11,478		
1,088	36	85,761	89,002	87,516	152,910	
429	136	104,471		82,941	108,381	
814	72	7,900	9,583	5,998		
1,243	208	112,371	9,583	88,939	108,381	
2,331	244	198,132	98,585	176,455	261,291	
					2,250,000	
					67,866	
					2,317,866	
40,215	11,212	2,147,490	2,314,860	1,600,000		
(743)	(96)	(55,848)	(74,418)	(40,833)		
39,472	11,116	2,091,642	2,240,442	1,559,167		
		405,791	622,349	128,426		
1,703	109					6,143
1,400		3,000	43,248			5,737
3,103	109	408,791	665,597	128,426		11,880
\$51,016	\$12,852	\$2,729,971	\$3,041,463	1,884,060	2,579,157	30,095
					(2,281,783)	
\$51,016	\$12,852	\$2,729,971	\$3,041,463	\$1,884,060	\$ 297,374	\$30,095

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(\$ in thousands)

NUCLEAR PROJECTS NO.'S 1 THROUGH 5 (Non-operating Projects)

	NUCLEAR PROJECT NO. 1	NUCLEAR PROJECT NO. 2	NUCLEAR PROJECT NO. 3	NUCLEAR PROJECTS NO.'S 4 & 5
Source of Funds				
Collected Under Net Billing	\$198,000	\$221,000	\$143,639	
Termination Loans and Payments				\$ 86
Interest Income	45,388	64,376	46,807	33,941
Charged to Joint Owners			136,264	(7,096)
Net Decrease in Restricted Funds	37,941	420,204	311,101	37,731
Revaluation of Investments	642	860		6,792
Other	14,011			
TOTAL SOURCE OF FUNDS	\$295,982	\$706,440	\$637,811	\$ 71,454
Use of Funds				
Buildings	\$ 10,661	\$ 10,486		\$ 1,787
Construction Costs	51,235	442,386	\$455,281	(164,709)
Interest Expense	208,940	217,937	165,882	198,209
Nuclear Fuel	13,773	3,464	30	36,108
Financing, Trustee and Paying Agent Expenses	634	1,070	789	59
Bonds Redeemed	3,815	15,010		
Revaluation of Investments			616	
Increase in Amounts Due Participants	4,623	16,087	15,213	
Net Transfers to the Hanford Generating Project	2,301			
TOTAL USE OF FUNDS	\$295,982	\$706,440	\$637,811	\$ 71,454

HANFORD AND PACKWOOD PROJECTS (Operating Projects)

	HANFORD GENERATING PROJECT	PACKWOOD PROJECT
Source of Funds		
Operations		
Net Revenue	\$ -0-	\$ -0-
Items Not Affecting Working Capital:		
Depreciation and Amortization	2,688	259
Decrease (Increase) in Costs Reimbursable from Power Purchasers	510	56
Less Gain on Redemption of Revenue Bonds	(129)	(158)
Total from Operations	3,069	157
Contributions for Improvements	35	-0-
Advances from Participants for Working Capital	-0-	-0-
TOTAL SOURCE OF FUNDS	\$3,104	\$157
Use of Funds:		
Net Improvements	\$ 110	-0-
Cost of Revenue Bonds Purchased and Retired	2,915	175
Increase in Restricted Assets	79	(18)
	3,104	157
Changes in Working Capital		
Cash and Investments	(3,328)	635
Receivables and Other	433	46
Payables and Other	2,895	(681)
Net Increase in Working Capital	-0-	-0-
TOTAL USE OF FUNDS	\$3,104	\$157

STATEMENT OF OPERATIONS

(\$ in thousands)

HANFORD AND PACKWOOD PROJECTS

	HANFORD GENERATING PROJECT	PACKWOOD PROJECT
<i>Operating Revenues</i>	\$43,274	\$824
<i>Operating Expenses</i>		
Reactor Availability	38,203	
Depreciation and Amortization	2,621	255
Power Production and Transmission	1,627	299
Maintenance	1,079	114
Administrative and General	500	60
	<u>44,030</u>	<u>728</u>
Net Operating Revenue (Loss)	<u>(756)</u>	<u>96</u>
<i>Other Income and Expense</i>		
Interest and Other Income	1,615	325
Interest Expense and Discount Amortization	<u>(859)</u>	<u>(421)</u>
	<u>756</u>	<u>(96)</u>
NET REVENUE	<u>\$ -0-</u>	<u>\$ -0-</u>

OUTSTANDING LONG-TERM DEBT

**HANFORD
GENERATING PROJECT**

Revenue Bonds (includes \$3,010,000 due within one year at June 30, 1983)

**PACKWOOD LAKE
HYDROELECTRIC PROJECT**

Revenue Bonds (includes \$160,000 due within one year at June 30, 1983)
Revenue Bonds

NUCLEAR PROJECT NO. 1

Revenue Bonds (includes \$1,100,000 due July 1, 1983)

Revenue Bonds (includes \$1,340,000 due July 1, 1983)

Revenue Bonds (includes \$1,605,000 due July 1, 1983)

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

(A) Various Prices

						(\$ in thousands)
SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1983
1963	5-8-63	3.26%	(A)	2.90—3.10%	9-1-83/1986	\$ 12,630
			98	3.25	9-1-1996	27,585
						\$ 40,215
1962	3-20-62	3.66	99.425	3.625	3-1-2012	\$ 8,502
1965	11-4-65	3.76	100.5	3.75	3-1-2012	2,710
						\$ 11,212
1975	9-18-75	7.73	(A)	5.75—7.40	7-1-83/2000	\$ 40,000
			100	7.70	7-1-2010	58,300
			100	7.75	7-1-2017	74,700
						173,000
1976A	2-4-76	6.84	(A)	6.00—6.25	7-1-83/1998	34,530
			100	6.90	7-1-2010	66,485
			100	7.00	7-1-2017	76,495
						177,510
1976B	8-31-76	6.37	(A)	5.00—5.90	7-1-83/1998	38,805
			100	6.50	7-1-2010	66,940
			99.50	6.50	7-1-2017	71,235
						176,980
1978A	3-21-78	5.69	(A)	5.00—5.50	7-1-84/2002	64,270
			100	5.80	7-1-2010	50,920
			100	5.875	7-1-2017	64,810
						180,000
1978B	12-5-78	6.61	(A)	5.50—6.00	7-1-84/1998	38,355
			100	6.35	7-1-2003	22,305
			100	6.60	7-1-2009	38,190
			99.50	6.80	7-1-2017	81,150
						180,000
1979	6-19-79	6.64	(A)	6.00	7-1-84/1998	29,385
			100	6.40	7-1-2003	18,560
			100	6.70	7-1-2009	32,370
			100	6.80	7-1-2017	69,685
						150,000
1980A	8-5-80	8.87	(A)	7.00—10.00	7-1-86/1995	55,500
			100	9.00	7-1-2002	37,000
			100	9.20	7-1-2005	16,950
			99.00	9.25	7-1-2013	70,550
			(A)	7.75	7-1-2017	30,000
						210,000
1981A	4-13-81	11.30	(A)	11.30—13.00	7-1-96/2003	28,580
			100	11.625	7-1-2012	91,420
						120,000
1981B	4-13-81	11.30	(A)	10.00	7-1-2016	40,000
1981C	4-13-81	10.29	100	10.25	7-1-2015	40,000
1981D	9-4-81	14.78	100	14.375	7-1-2001	20,000
			57.895	8.25	7-1-2003	30,000
			100	15.00	7-1-2017	265,000
						315,000
1982A	2-11-82	14.79	100	10.50—13.75	7-1-88/1996	29,355
			100	14.50	7-1-2002	50,645
			99.25	14.75	7-1-2017	305,000
						385,000
						\$2,147,490

OUTSTANDING LONG-TERM DEBT

(continued)

NUCLEAR PROJECT NO. 2

Revenue Bonds

Revenue Bonds

Revenue Bonds (excludes \$2,500,000 due July 1, 1983)

Revenue Bonds (excludes \$3,200,000 due July 1, 1983)

Revenue Bonds (excludes \$885,000 due July 1, 1983)

Revenue Bonds (excludes \$2,700,000 due July 1, 1983)

Revenue Bonds (excludes \$1,875,000 due July 1, 1983)

Revenue Bonds (excludes \$2,225,000 due July 1, 1983)

Revenue Bonds (excludes \$1,625,000 due July 1, 1983)

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

(A) Various Prices

(\$ in thousands)

SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1983
1973	6-26-73	5.66%	(A) 100	5.00—5.10% 5.70	7-1-87/1991 7-1-2012	\$ 13,600 124,400 138,000
1974	7-23-74	7.21	(A) 100 100	6.50—6.90 7.00 7.375	7-1-87/1994 7-1-1999 7-1-2012	18,000 15,000 37,000 70,000
1974A	11-26-74	7.67	(A) 100 100	7.20 7.40 7.75	7-1-83/1994 7-1-1999 7-1-2012	23,000 15,000 78,000 116,000
1975A	3-6-75	6.71	(A) 100 100	6.60 6.60 6.875	7-1-83/1994 7-1-1999 7-1-2012	26,000 15,000 78,000 119,000
1976	6-3-76	6.63	(A) 99.25 100	5.40—6.25 6.625 6.75	7-1-83/1998 7-1-2006 7-1-2012	26,080 42,300 49,860 118,240
1976A	11-18-76	5.87	(A) 100 99.50	5.50—5.875 6.00 6.00	7-1-83/2002 7-1-2007 7-1-2012	88,910 44,815 60,990 194,715
1978	7-11-78	6.71	(A) 100 100	5.50—6.60 6.80 6.875	7-1-83/2000 7-1-2006 7-1-2012	64,645 45,520 66,230 176,395
1979	3-13-79	6.49	(A) 100 100	5.50—6.00 6.40 6.75	7-1-83/1999 7-1-2004 7-1-2012	58,580 33,490 83,605 175,675
1979A	10-17-79	7.69	(A) 100 100	6.40—7.30 7.60 7.75	7-1-83/1999 7-1-2004 7-1-2012	41,785 23,050 57,000 121,835
1980	10-21-80	9.36	(A) 100 100 100 (A) (A)	8.90—10.90 9.30 9.60 9.25 8.25	7-1-86/1997 7-1-2001 7-1-2006 7-1-2001 7-1-2012	35,230 23,735 46,070 75,045 19,920 200,000
1981A	9-4-81	12.44	100 57.895 99 100	14.375 8.25 14.50 13.25	7-1-2001 7-1-2003 7-1-2006 7-1-2012	30,000 100,000 30,000 50,000 210,000
1982A	2-11-82	14.76	100 100 99.25	9.50—13.75 14.50 14.75	7-1-86/1996 7-1-2002 7-1-2012	33,335 51,665 215,000 300,000
1982B	5-20-82	13.82	100 100	9.00—13.00 13.875	7-1-86/1996 7-1-2012	39,400 139,320 178,720

OUTSTANDING LONG-TERM DEBT

(continued)

Revenue Bonds

NUCLEAR PROJECT NO. 3

Revenue Bonds (includes \$900,000 due July 1, 1983)

Revenue Bonds (includes \$780,000 due July 1, 1983)

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

Revenue Bonds

(A) Various Prices

(\$ in thousands)

SERIES	DATE OF SALE	EFFECTIVE INTEREST RATE	OFFERING PRICES	COUPON RATE	SERIAL OF TERM MATURITIES	JUNE 30, 1983
1982C	5-20-82	13.89%	100 100	13.50% 13.875	7-1-2002 7-1-2012	56,960 139,320 196,280 \$2,314,860
1975	12-3-75	7.87	(A) 100 100	5.40-7.25 7.875 7.875	7-1-83/1998 7-1-2010 7-1-2018	\$ 26,145 52,695 71,160 150,000
1976	4-13-76	6.48	(A) 99.625 100	5.50-6.00 6.50 6.60	7-1-83/1998 7-1-2010 7-1-2018	19,605 35,100 45,295 100,000
1977	9-12-77	5.71	(A) 99.50 99.50	5.00-5.30 5.70 5.80	7-1-85/2000 7-1-2009 7-1-2018	59,305 63,535 107,160 230,000
1978	9-12-78	6.27	(A) 100 99	5.90-6.00 6.375 6.40	7-1-85/2004 7-1-2010 7-1-2018	66,385 42,985 90,630 200,000
1981A	2-11-81	10.80	(A) 100 99.50 88.50 88.50	9.50-12.50 11.125 11.125 9.75 9.75	7-1-87/2001 7-1-2005 7-1-2010 7-1-2017 7-1-2018	64,375 40,535 80,310 18,950 20,830 225,000
1981B	9-4-81	14.80	57.895 99 100	8.25 14.50 15.00	7-1-2003 7-1-2006 7-1-2018	20,000 20,000 185,000 225,000
1982A	2-11-82	14.83	100 100 99.25	10.50-13.75 14.50 14.75	7-1-88/1996 7-1-2002 7-1-2018	6,055 10,445 148,500 165,000
1982B	5-20-82	13.95	100 99.50	10.50-13.00 13.875	7-1-88/1996 7-1-2018	9,195 280,925 290,120
1982C	5-20-82	13.63	100	13.50	7-1-2002	14,880 \$1,600,000

NOTES TO FINANCIAL STATEMENTS:

Note A—Organization

The Washington Public Power Supply System was organized in 1957 as a municipal corporation and joint operating agency of the State of Washington. Its membership consists of 19 public utility districts and 4 municipalities that own and operate electric systems within the State of Washington. It is empowered to acquire, construct and operate facilities for the generation and transmission of electric power and energy.

The Supply System has constructed and is now operating the Packwood Lake Hydroelectric Project and the Hanford Generating Project and has one nuclear electric generating plant currently scheduled for commercial operation in 1984 (Nuclear Project No. 2). The Supply System's Nuclear Project No. 1 is in the second year of an extended construction delay of approximately five years; Nuclear Project No. 3 is in the first year of an extended construction delay; and Nuclear Projects No.'s 4 and 5 were terminated on January 22, 1982. In addition, the Supply System has an Internal Service Fund to account for the central procurement of certain common goods and services for the projects on a cost-reimbursement basis.

Nuclear Projects No.'s 1, 2, and 4 are wholly-owned by the Supply System. Nuclear Project No. 3 is jointly owned by the Supply System (70%) and four investor-owned utilities (30%). Nuclear Project No. 5 is also jointly owned by the Supply System (90%) and one investor-owned utility (10%).

Each joint owner is responsible for its own financing costs, providing its share of the costs of construction, operation and termination and is entitled to its ownership share of the projects' operating capability.

The Supply System is currently unable to obtain additional financing through the sale of bonds in public markets due to substantial litigation matters. In accordance with the covenants of the bond resolutions, the Supply System is authorized to recover its cost of operation and debt service over the life of the plant or bonds outstanding. Accordingly, the Supply System realizes no income or loss and equity is not accumulated.

Note B—Summary of Significant Accounting Policies

The Supply System has adopted accounting policies and practices that are in accordance with generally accepted accounting principles applicable to the utility industry. Separate books of account are maintained for each project except for Nuclear Projects No.'s 4 and 5, which are accounted for as a single entity.

Restricted Funds

In accordance with project bond resolutions and certain related agreements, separate restricted funds are required to be established for each of the projects. The assets held in these funds are restricted for specific uses including construction, termination, debt service and other special reserve requirements. Restricted funds are identified on the balance sheet as Special Funds, Chemical Bank Legal Fees Escrow Account, and Debt Service Funds.

Cash and investments in Special Funds of projects under construction and in termination include cash retainage amounts held in escrow for contractors of \$74,566,328 at June 30, 1983.

Current Assets and Current Liabilities

Assets and liabilities shown as current in the accompanying balance sheets exclude current maturities on revenue bonds and accrued interest thereon because Debt Service Funds are provided for their payment.

Investments

Investments include time certificates of deposit, repurchase agreements (secured by U.S. Government securities) and United States Government and Government Agencies securities. Investments are stated at cost or amortized cost as appropriate and include accrued interest.

Investments held in the Bond Fund Reserve Accounts (included in Debt Service Funds) and Reserve and Contingency Funds (included in Special Funds) are stated at the lower of amortized cost or market as provided by their respective bond resolutions.

The market value of investments approximates the carrying value.

Income Earned on Investments

Income earned on investments includes gains and losses from the sale of investments. Income earned on investments held by Nuclear Projects No.'s 1, 2, and 3 is recorded as a reduction in construction costs. Income earned on investments held by operating projects accrues to the benefit of the applicable project's Operating Fund. Income earned on Nuclear Projects No.'s 4 and 5 is recorded as a reduction of the Cost Related to Construction and Termination of Utility Plants.

Capitalization of Construction Costs and Expenses

During the construction, construction delay phase, or termination phase of a project, the Supply System will capitalize all costs of the project including general, administrative, interest, certain depreciation and other expenses.

Overhead expenses of the Supply System are allocated from the Internal Service Fund to the various projects primarily on the basis of direct salary cost or direct usage.

Utility Plant and Equipment—Depreciation and Amortization

Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the projects, which approximate the term of the related revenue bonds.

Improvements to U.S. Government-owned facilities are being amortized over the period covered by the contract for dual-purpose operation of the Department of Energy's New Production Reactor.

Contributions Used for Purchase of Equipment—Packwood and Hanford Projects

Monies provided by participants to acquire equipment since completion of the projects are recorded and accounted for as a reduction of the carrying value of such equipment included in Utility Plant and Equipment.

Debt Discount, Premium and Expenses

Debt discount, premium, or expenses relating to the issuance of revenue bonds are amortized by the straight-line method over the terms of

the respective issues. For terminated projects such costs are combined with Cost Related to Construction and Termination of Utility Plants.

Revenues

Member purchasers of power are contractually obligated to pay project annual costs including debt service (excluding depreciation and amortization). The Supply System records these reimbursable annual costs as operating revenues for the Hanford and Packwood projects. In addition to recovery of project annual costs, the Supply System records as revenue each year an amount equal to the provisions for depreciation and amortization, less the recorded gains on bond redemption. This accounting policy is used in order to spread such revenues equally over the full term of the bonds.

Cumulative reimbursable annual costs, less payments by member purchasers for bond redemption and operating costs, are reflected as Unbilled Reimbursable Costs in the accompanying balance sheets.

For Projects No.'s 1, 2, and 3, payments received from member purchasers for bond redemption and interest are shown as Unearned Revenue in the accompanying balance sheets. Such unearned revenue will be recognized as revenue during the period of operation of the plants.

Cost Related to Construction and Termination of Utility Plants

For Projects No.'s 4 and 5, the costs of construction through January 22, 1982, the date of termination, and the costs of termination and other related costs subsequent to that date are shown at their estimated net recoverable value in the accompanying balance sheets as of June 30, 1983 based upon Supply System staff estimates. The amount provided (\$2,281,782,980) as the allowance for estimated unrecoverable cost to reduce the costs incurred to net recoverable value has been reflected as Deficiency in Assets in the accompanying balance sheets.

Retirement Plan

The Supply System participates in the Washington State Public Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS

(continued)

that provides retirement benefits to eligible employees. Cost of the plan to the Supply System is determined by the Retirement System's Board. The actuarially computed value of pension benefits exceeds the fund assets for the Retirement System. However, because the Retirement System is a multi-employer system, the amount of such excess, if any, that relates to the Supply System is not available. The Supply System's required contribution was \$3,885,964 in 1983.

Note C—Long-Term Debt

Except for Nuclear Projects No.'s 4 and 5, which were financed together as one utility system, all Supply System projects are financed separately. The revenue bonds issued with respect to each project are payable solely from the revenues of that project.

Outstanding revenue bonds of the various projects as of June 30, 1983 are presented on pages 16 through 21.

Security—Agreements and Contracts

The United States of America, Department of Energy (DOE), acting by and through the Bonneville Power Administration (BPA) has purchased the entire capability of the Hanford Project and the Supply System's ownership share of the projects' capability of Nuclear Projects No.'s 1, 2, and 3 from its statutory preference customers and, in addition, with respect to Project No. 1, five of its private utility customers. Each of these customers has, in turn, purchased such capability from the Supply System, all under the Net-Billing and Exchange Agreements. BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System their pro rata share of the total annual costs of the projects, including debt service on the bonds, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

The Supply System's Packwood Project revenue bonds are secured by Power Sales Contracts between the Supply System and each of its 12 member purchasers. Pursuant to these agreements, member purchasers pay for their

percentage allocation of power specified therein at rates sufficient to operate and maintain the project, and pay debt service on the bonds. Such payments continue until the bonds are paid or provision is made for their payment or retirement.

In connection with the issuance of the Generating Facilities revenue bonds for Nuclear Projects No.'s 4 and 5, the Supply System pledged the revenues to be derived under Participants' Agreements with 88 utilities operating principally in the Pacific Northwest. The Participants' Agreements provided that each participant was obligated to pay its respective share of annual costs, including debt service on the bonds, whether or not the projects were completed, operable, or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment of the projects' output. Payments from the participants for Nuclear Projects No.'s 4 and 5 termination costs and debt service were due beginning on January 25, 1983. Payments due under the Participants' Agreements have not been forthcoming and an Event of Default, as defined in the Bond Resolution, occurred on July 22, 1983, and is continuing. On August 18, 1983, Chemical Bank (Projects No.'s 4 and 5 Bond Fund Trustee) declared the principal of all Nuclear Projects No.'s 4 and 5 revenue bonds and accrued interest thereon, due and payable immediately. See Note D for a discussion of the termination of Nuclear Projects No.'s 4 and 5, related challenges to the Participants' Agreements and default on the bonds.

In connection with the issuance of the Nuclear Projects No.'s 4 and 5 subordinated revenue notes (\$60,000,000 due July 1, 1984, and \$7,865,502 due June 30, 1983), the Supply System pledged to set aside funds for payment of such obligations from funds to be accumulated in the Revenue Fund. The note agreements provide that such repayments, to the degree not otherwise provided for, are to be included in the amounts due under the Participants' Agreements. As noted above, payments due under the Participants' Agreements to be accumulated in the Revenue Fund were not made and therefore the \$7,865,502 of notes due June 30, 1983, were not paid. In addition, be-

cause of the default on the Nuclear Projects No.'s 4 and 5 Revenue Bonds, the payment of the \$60,000,000 of subordinated revenue notes may be accelerated at the option of the note holder. See Note D for a discussion of default on Nuclear Projects No.'s 4 and 5 subordinated revenue notes.

Note D—Termination of Nuclear Projects No.'s 4 and 5 and Default Under Bond Resolution

On January 22, 1982, the Supply System's Nuclear Projects No.'s 4 and 5 were terminated. Construction was 24% and 16% (respectively) complete at the termination date. The Supply System's current estimate of termination costs (\$120,624,000), including costs of contract settlements and other termination costs, have been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. Although management of the Supply System is satisfied that their estimates are reasonable, the final settlement for termination costs and the cost of decommissioning the projects cannot be determined at this time. Certain physical assets of Projects No.'s 4 and 5 are continuing to be maintained for a period to maximize their ultimate sales value upon disposal.

The Participants' Agreements (discussed in Note C under Security) provided that each participant would pay its respective share of the debt service on the bonds and termination costs beginning January 25, 1983. Payments due under the Participants' Agreements were not made pending a judicial determination concerning the participants' authority to pay. On June 15, 1983, the Washington State Supreme Court ruled that the Washington State utilities did not have the statutory authority to enter into the Participants' Agreements and that those agreements were invalid as to the Washington State public bodies (cities and public utility districts which collectively comprise approximately 68 percent of the participants' shares). It is anticipated that this ruling will be appealed to the United States Supreme Court. The Superior Court for King County, Washington, has also ruled that by virtue of the State Supreme Court decision, the Participants' Agreements are unenforceable against all re-

maining participants. The Supply System and Chemical Bank have appealed this ruling, and all other issues adjudicated by the Superior Court, to the Washington State Supreme Court. Oral argument before the State Supreme Court is set for March 26, 1984.

Since the Participants' Agreements were ruled invalid, payments due under the agreements (\$62,438,000 as of June 30, 1983) were not made and there was a deficiency in the Bond Fund Interest Account of \$29,685,399 as of June 30, 1983. On July 1, the Supply System transferred \$10,029,746 from the Reserve and Contingency Fund to Chemical Bank for credit to the Bond Fund Interest Account. Also, on that date, Chemical Bank transferred \$19,654,653 from the Bond Fund Reserve Account to the Bond Fund Interest Account to cover the remaining deficiency in the Bond Fund Interest Account. These July 1, 1983, transfers have been reflected in the accompanying June 30, 1983, balance sheet. These transfers, together with funds held in the Bond Fund Interest Account at June 30, 1983, permitted Chemical Bank to transfer \$93,952,219 from the Bond Fund Interest Account to the paying agents to pay the July 1, 1983, coupon interest payment on the bonds. In addition, on July 1, 1983, Chemical Bank transferred a security with a book value of \$8,825,864 from the Bond Fund Reserve Account to a newly established Trustee Legal Fee Escrow Account. The purpose of this transfer was to set aside funds to pay for Chemical Bank's legal fees, and a portion of the Supply System legal fees. A deficiency continues to exist in the Reserve and Contingency Fund and Bond Fund Interest and Reserve Accounts (which is also a default under provisions of Nuclear Projects No.'s 4 and 5 Bond Resolution).

On July 22, 1983, the Supply System acknowledged that it could not meet all Nuclear Projects No.'s 4 and 5 obligations as they became due. This admission represents an event of default under the Nuclear Projects No.'s 4 and 5 Bond Resolution. As a result and as required under Section 11.3 of the Bond Resolution, Chemical Bank demanded that remaining funds in the Construction Fund (\$23,193,264), Construction Trust Account

NOTES TO FINANCIAL STATEMENTS

(continued)

(\$723,256) and Operating Fund (\$1,648,568) be transferred to them to the credit of the Washington Public Power Supply System Section 11.3 Account. This transfer was made on July 25, 1983. Under Section 11.4 of the Nuclear Projects No.'s 4 and 5 Bond Resolution, Chemical Bank as Bond Fund Trustee or a duly constituted Bondholders' Committee is entitled, to the extent permitted by law, to take possession of the business and properties of Nuclear Projects No.'s 4 and 5. At present, the Supply System is continuing to manage the termination activities; however, Chemical Bank disburses the funds for payment of Nuclear Projects No.'s 4 and 5 termination activities in accordance with the payment priorities established in the Bond Resolution. Since total obligations currently exceed available cash and revenues, certain lower priority obligations as defined in the Bond Resolution are not being paid.

On August 18, 1983, Chemical Bank declared the principal of all Nuclear Projects No.'s 4 and 5 Revenue Bonds and interest accrued thereon to be due and payable immediately.

In August 1983, Chemical Bank filed a lawsuit in U.S. District Court—Western District of Washington, against the Supply System, all participants in Nuclear Projects No.'s 4 and 5, Supply System member utilities and Directors, BPA and other individuals alleging Securities Act violations, fraud, failure to disclose mismanagement, negligence, bad faith and misrepresentation. This suit is currently in the prediscovery phase. Pursuant to state law and resolutions of the Supply System's Executive Board, the Supply System has undertaken to indemnify its directors for certain of the acts which have been alleged in the aforementioned complaints. The Supply System is obligated for associated costs (including legal defense costs) to the extent such costs are not covered by directors' and officers' insurance.

In addition, during 1983, numerous class action lawsuits have been filed by bondholders against the Supply System and others alleging Securities Act violations, fraud, failure to disclose, negligence and misrepresentation. All the suits seek monetary damages for losses sustained by the class represented. These cases have been consolidated in U.S. District Court—

Western District of Washington and are all in the prediscovery phase of the litigation process.

Since the Participants' Agreements have been held to be invalid, the assets of Nuclear Projects No.'s 4 and 5 have been reduced to their estimated net recoverable value. Such recoverable value is based on Supply System staff estimates; however, the ultimate recoverability cannot presently be determined. In providing an allowance for estimated unrecoverable costs, a deficiency in Nuclear Projects No.'s 4 and 5 assets is created. Chemical Bank and the Supply System are continuing to pursue through the courts, recovery of the payment of principal and interest on the bonds.

The Supply System cannot predict the outcome of the above litigation.

Note E—Commitments and Contingencies

Hanford Generating Project and its Relationship to Nuclear Project No. 1

The Department of Energy owns and operates a nuclear reactor, the New Production Reactor. This reactor provides by-product steam to the Hanford Generating Project. The Supply System's current agreement with the DOE provides for the continuation of this dual-purpose operation of the reactor through June 1993. In accordance with certain related agreements, the operating costs of the project will in turn be offset by payments from certain public and private utilities in return for the energy generated as a result of continued operation.

It was initially intended that Nuclear Project No. 1 would be constructed adjacent to the Hanford Generating Project and would provide the energy source to operate the project when the DOE ceased operation of the New Production Reactor. To allow for construction of Nuclear Project No. 1, it would have been necessary that the Hanford Generating Project be shut down on October 31, 1977. Because studies at that time indicated that generating resources in the Pacific Northwest would be inadequate in the late 1970s and early 1980s, the Supply System and BPA determined that the Hanford Generating Project should be kept available for power production. Therefore, the

Nuclear Project No. 1 Net-Billing, Exchange and Project Agreements were amended to provide for the separation of Nuclear Project No. 1 from the Hanford Generating Project and to provide that Hanford Generating Project costs, to the extent not otherwise provided for, will be treated as Nuclear Project No. 1 costs having a first claim on the revenues of that project.

The amended agreements provide for the payment of all debt service costs of the Hanford Generating Project by Nuclear Project No. 1 participants, commencing July 1, 1980, regardless of continued operation of the reactor. If the plant ceases operations, revenues to the Hanford Generating Project arising from the aforementioned payments will nevertheless be recorded each year thereafter in amounts that will result in full realization of the carrying value of the plant.

The U.S. Government has an option to acquire ownership of the Hanford Generating Project upon obtaining Congressional approval. If the Government exercises its option, it must assume all rights and obligations of the project, including the obligation to pay all revenue bonds.

Nuclear Projects No.'s 1 and 3— Construction Delay

On April 29, 1982, the Supply System, upon the recommendation of BPA, approved the implementation of an extended construction delay of Nuclear Project No. 1 for a period of approximately five years. On July 8, 1983, the Supply System, also based on BPA's recommendation, approved the implementation of an extended construction delay of Nuclear Project No. 3. During the construction delay, plant assets will be preserved along with existing project licenses.

The Supply System's current estimate of costs to settle terminated and delayed contracts for Nuclear Project No. 1 is \$8,605,000 and has been accrued as Accounts Payable and Accrued Expenses in the accompanying balance sheets. Although management of the Supply System is satisfied that their estimates are reasonable, the final settlement costs cannot be determined at this time.

The Supply System is currently analyzing various construction restart alternatives for Nuclear Project No. 3. The construction delay alternatives vary from seven months to three years. Since the duration of the slowdown is currently undecided, the Supply System has suspended major construction contracts rather than cancel or permanently delay them. Therefore, there is no accrual of estimated contract termination or delay costs included in the accompanying balance sheet for Nuclear Project No. 3.

The obligations of the participants of the projects and BPA under the Net-Billing Agreements are not affected by the construction delay. See "Shared Costs" for a discussion of the Nuclear Project No. 3 investor-owned utilities challenge to the Ownership Agreement and BPA concerning the Nuclear Project No. 3 construction delay.

Nuclear Projects No.'s 4 and 5 Subordinated Revenue Notes

Prior to termination of Nuclear Projects No.'s 4 and 5, certain project participants, investor-owned utilities and industrial customers of BPA agreed to loan Nuclear Projects No.'s 4 and 5 sufficient funds to avoid an uncontrolled termination of the projects.

The loans were in the form of subordinated revenue notes consisting of:

<u>Series</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Amount Outstanding</u>
1981	15%	07-01-84	\$60,000,000
1982	15%	06-30-83	<u>7,865,502</u>
			<u>\$67,865,502</u>

The 1981 Series notes are held by certain Nuclear Projects No.'s 4 and 5 participants, investor-owned utilities and industrial customers of BPA. The 1982 Series notes are held by certain Nuclear Projects No.'s 4 and 5 participants. Because there were insufficient funds in the Projects No.'s 4 and 5 Revenue fund on June 30, 1983, the 1982 Series notes were not redeemed. Certain participants have filed lawsuits against the Supply System for repayment of the notes. Except for one participant who was granted its motion for repayment

NOTES TO FINANCIAL STATEMENTS

(continued)

by Benton County, Washington Superior Court, the other lawsuits are in various pre-trial stages. Because of the default on the Nuclear Projects No.'s 4 and 5 Revenue Bonds, the 1981 Series note in the amount of \$60,000,000 may be accelerated at the option of the holder. Certain of the participants who hold the subordinated notes have accelerated them and have sued the Supply System for repayment of the notes. As of this date, eleven lawsuits have been brought against the Supply System for payment of the notes. Chemical Bank is a co-defendant in three of these cases. Three of these cases are in their pre-trial states. In all of the other cases, summary judgment has been rendered against the Supply System. Formal orders have been entered only in some of these cases. In two of these cases, the judgments state that the Supply System's obligation to pay the notes is not restricted to the funds of Nuclear Projects 4 and 5. These cases have been or will be appealed by the Supply System to the Washington Court of Appeals.

It is anticipated that the remaining note holders may accelerate the due date of their notes and file lawsuits. Although these payments are by the terms of the Loan Agreements repayable only from a special fund to be created from payments under the Participants' Agreements, these cases have the potential to result in attempts to satisfy Nuclear Projects No.'s 4 and 5 obligations from the assets of the Supply System.

Nuclear Project No. 5 Ownership Agreement

Under the terms of the Ownership Agreement with Pacific Power and Light Company (Pacific), Pacific is obligated to fund its respective ownership share of termination costs, beginning January 25, 1983, and continuing until all costs of termination have been paid. Any funds received from the sale of plant assets reduce Pacific's obligation for termination costs.

Pacific has stated to the Supply System that it considers the failure of the Supply System to obtain necessary financing for Project No. 5 to be a breach of the Project No. 5 Ownership

Agreement and has reserved its rights to pursue appropriate remedies with respect to such breach. It is the position of the Supply System that the termination of Project No. 5 does not constitute a breach of the Project No. 5 Ownership Agreement and that Pacific is responsible under the Project No. 5 Ownership Agreement for payment of its 10 percent share of the costs of termination of such project.

On June 16, 1983, Pacific advised the Supply System that due to the Washington Supreme Court ruling that certain Participants' Agreements were invalid (as described in Note D) and other related actions by the Supply System, Pacific would no longer fund 10 percent of the costs of Nuclear Project No. 5 termination costs. Pacific further advised that it would not make further termination cost payments until adequate assurances are received from the Supply System that it can re-establish and maintain controlled termination of the project in accordance with the agreements. The Supply System is currently working with Pacific to provide such assurance and anticipates that Pacific will resume payments in the near future. As stated above, it is the Supply System's position that Pacific is responsible for its 10 percent share of termination costs. Until Pacific resumes payments, the Supply System is withholding Pacific's 10 percent share of revenue received from Nuclear Project No. 5 asset sales. As of June 30, 1983, Pacific's 10 percent share of Nuclear Project No. 5 accrued termination costs was \$7,558,910. Of this amount, \$431,788 is currently due and has been presented to Pacific for payment. The remaining amount represents the Supply System's estimate of future termination costs.

Pacific Power and Light Company has made payments under the Nuclear Project No. 5 Ownership Agreement pursuant to reservation of rights to its potential claim to sue the Supply System for damages for failure to complete Nuclear Project No. 5. Pacific's claim would presumably be in the approximate amount of \$150,000,000, its investment in the project. Such a claim would be a general claim against the assets of the Supply System.

Inter-Project Claims and Claims Against General Assets

As discussed above, Supply System Nuclear Projects No.'s 4 and 5 are currently unable to meet Nuclear Project No.'s 4 and 5 debts as they become due. Creditors of particular projects and other creditors (including claimants in tort, contract, under the securities laws or other actions) may attempt to obtain payment from all projects and/or from the general assets of the Supply System. Such creditors include those described in these footnotes and others who may in the future assert claims against the Supply System and/or its projects.

In a January 5, 1984, opinion, bond counsel to the Supply System indicated that neither the holders of bonds issued to finance the construction of Supply System Nuclear Projects No.'s 4 and 5, nor creditors of the Supply System whose claims arose from the furnishing of goods or services with respect to Nuclear Projects No.'s 4 and 5, will be able to realize upon the assets of Supply System Nuclear Projects No.'s 1, 2, and 3 necessary for the purposes of such Projects or the Supply System, or upon revenues or funds held in trust or relating to Supply System Nuclear Projects No.'s 1, 2, and 3, or for the holders of bonds issued by the Supply System to finance the construction of such projects, except to the extent they might obtain rights through a valid exercise of the sovereign police power of the State of Washington or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System. Bond counsel's opinion as to the assets of Supply System Nuclear Projects No.'s 1, 2, and 3 is limited to those assets located within the State of Washington, or as to which a court would apply the law of the State of Washington, and the opinion excludes assets that are not necessary for the purposes of Supply System Nuclear Projects No.'s 1, 2, and 3 or the Supply System. Bond counsel is not able to determine at this time how a court of a state other than the State of Washington would treat assets of Supply System Nuclear Projects No.'s 1, 2, and 3 located outside the State of Washington, if such court were to apply the law of a state other than the State of Washington.

Bond counsel has not undertaken an investigation of the issues discussed above with respect to the Packwood or Hanford Generating Projects. However, they believe that upon full investigation the same opinion could be rendered with respect to assets of the Packwood and Hanford Generating Projects and revenues or funds held in trust or relating to such projects or for the holders of bonds issued by the Supply System to finance the construction of such projects.

Shared Costs

The termination of Nuclear Projects No.'s 4 and 5 creates an uncertainty as to how certain common services and facilities are to be shared with Nuclear Projects No.'s 1 and 3, respectively. In August 1982, the participants of Nuclear Projects No.'s 4 and 5 presented a claim to Projects No.'s 1 and 3 to reimburse Projects No.'s 4 and 5 for a portion of the costs of such shared services and facilities paid by the projects prior to July 1, 1981. The claim included a request for immediate payment of \$75,000,000 and \$86,000,000 plus interest from Projects No.'s 1 and 3 respectively, plus such amounts as may be determined in the future. The claim is based on an alternative method of calculating shared costs which is different from the method adopted by the Supply System.

In addition, the Supply System has performed a detailed analysis of the application of its cost sharing policy from inception of the projects to determine if costs were allocated properly. The results of this analysis through August 1983 indicate that approximately \$16,000,000 plus interest is due Nuclear Project No. 5 from Nuclear Project No. 3, approximately \$8,400,000 plus interest is due Nuclear Project No. 1 from Nuclear Project No. 4, and approximately \$163,000 plus interest is due Nuclear Project No. 4 from Nuclear Project 2. These amounts (excluding accrued interest) have been recorded in the accompanying balance sheets as of June 30, 1983. The results of the aforementioned analysis are subject to review and audit by BPA and the investor-owned utilities in Nuclear Projects No.'s 3 and 5. Because of the preliminary nature of the aforementioned findings, the uncertainty over

NOTES TO FINANCIAL STATEMENTS

(continued)

the shared cost policies adopted by the Supply System, and since the matter of the proper allocation of shared costs is currently in litigation, as described below, the ultimate allocation of shared costs is uncertain.

On October 26, 1982, the Supply System filed a legal action against BPA, the four investor-owned utilities who are joint owners of Project No. 3, the participants of Nuclear Projects No.'s 4 and 5, (the court has since allowed Chemical Bank to intervene in this suit) and the Construction Fund Trustee for Nuclear Project No. 1, seeking a judicial determination of past and future shared costs among Nuclear Projects No.'s 1 and 4 and Nuclear Projects No.'s 3 and 5. (The court has since restructured the case wherein BPA is now the plaintiff and the Supply System and other aforementioned parties are defendants.) Although the lawsuit does not specify the amounts of money that the parties believe should be reallocated, the method used to calculate the aforementioned claim is an issue in the lawsuit.

The four investor-owned utilities who own 30 percent of Nuclear Project No. 3 have filed cross-claims against the Supply System seeking damages and other relief for the suspension of construction of Project No. 3. These investor-owned utilities also seek an injunction requiring the Supply System to resume construction of Project No. 3 and to collect funds from BPA and the Nuclear Project No. 3 participants through the net-billing process sufficient to pay for completion.

On September 2, 1983, the court entered an order staying this case until January 1, 1984. The stay has been extended indefinitely. The Supply System cannot predict the outcome of these pending claims and litigations.

Net-Billing Agreements

On November 15, 1982, the City of Springfield, Oregon, filed a complaint against the Supply System, Bonneville Power Administration (BPA), and others, including investor-owned utilities in Nuclear Project No. 3 and all entities which have entered into Net-Billing Agreements pertaining to one or more Supply System projects. The complaint alleged that the Lane County Circuit Court's decision in DeFazio vs.

Washington Public Power Supply System had created doubt and uncertainty about the contractual obligations of Oregon public participants and their authority to enter into Net-Billing Agreements. It also alleged that members of Oregon public utility boards are exposed to personal liability for any payments of public money not authorized by law. The complaint sought a declaratory judgment that Oregon public participants had legal authority to enter into the Net-Billing Agreements; or if they did not, that BPA is liable to make contract payments and is estopped from denying its obligation to do so. In their responses to the complaint, BPA and the Supply System asked for a declaration that all signatories to the Net-Billing Agreements had legal authority to enter into them. Springfield ratepayers who were parties to DeFazio intervened in the action, asking for a declaration that the Net-Billing Agreements were invalid.

The parties to the Net-Billing Agreements are BPA, the Supply System, and the participants. The agreements provide that BPA is obligated to pay the participants, and the participants are obligated to pay the Supply System their pro rata shares of the total annual costs of the projects, including debt service on the bonds, whether or not the projects are completed, operable, or operating, and notwithstanding the suspension, reduction, or curtailment of the projects' output. However, the agreements also provide that they shall not be binding on any of the aforementioned parties if they are not binding on all the parties.

The U.S. District Court for Oregon entered a judgment declaring that all parties to the Net-Billing Agreements had legal authority to enter into them. Its decision was appealed by the ratepayers to the Ninth Circuit Court of Appeals in July 1983, and the case is now being briefed. The argument has not yet been set, and Supply System counsel cannot predict the outcome of the appeal. If a final judicial determination were rendered that the Net-Billing Agreements are not enforceable against the parties, such a decision would have a material adverse impact on the financial condition of the Supply System and its ability to repay the

holders of bonds issued to finance Projects No.'s 1, 2, 3, and the Hanford Generating Project.

Uranium Supplier Litigation

In November 1981, the Supply System filed an antitrust suit against Western Nuclear, a uranium supplier. Western Nuclear filed a counterclaim for breach of contract against the Supply System. On July 26, 1983, Western Nuclear was granted a summary judgment order against the Supply System for \$53,626,000 plus interest. The Supply System has appealed the judgment to the United States Court of Appeals for the Ninth Circuit, and the court has granted a stay of enforcement of the judgment pending resolution of the appeal. The appeal was argued in October, 1983.

On January 4, 1984, legal counsel advised that the Supply System and Western Nuclear are engaged in settlement negotiations, and the parties have asked the Court to defer its ruling pending completion of negotiations. The projects' proportionate shares of the aforementioned summary judgment, excluding interest, have been recorded on the accompanying balance sheets of Projects No.'s 1, 4, and 5. It is possible that a settlement will involve a change in the allocation of the Western Nuclear summary judgment among the Supply System's projects which differs from the allocation of the summary judgment recorded in the June 30, 1983, financial statements.

Before the Ninth Circuit granted its stay, Western Nuclear filed three separate actions in Oklahoma, seeking to attach Supply System uranium located there which is held by Kerr-McGee Nuclear Corporation. Kerr-McGee is under contract to the Supply System to convert the uranium from U_3O_8 to other forms of uranium.

The uranium which Western Nuclear is pursuing in Oklahoma is owned by Nuclear Project No. 1 and Nuclear Project No. 2. Western Nuclear has asserted that it will look to all assets of the Supply System to satisfy its judgment. The Supply System's purported obligations under the balance of the 1975 contract and summary judgment were recorded approximately 23 percent by Nuclear Project No. 1

and approximately 77 percent by Nuclear Projects No.'s 4 and 5. The Supply System has appealed in each of the Oklahoma cases and is resisting Western Nuclear's various efforts to execute on its judgment against the Supply System's assets. In view of the proceedings now pending before the Ninth Circuit, and in view of the new and preliminary nature of the Oklahoma proceedings, it is not possible at this time to predict the outcome or future course of the Oklahoma cases.

In August 1983, Kerr-McGee filed a suit against the Supply System for anticipatory breach of their conversion services contract. The complaint seeks damages against the Supply System in the amount of \$14 million and a prejudgment attachment of approximately \$9.7 million worth of Supply System uranium (owned by Nuclear Projects No.'s 1 and 2) now in Kerr-McGee's possession.

See the discussion under Inter-Projects Claims and Claims Against General Assets, regarding creditors of one project attempting to obtain payment from the assets of other projects.

Securities and Exchange Commission Investigation

On January 12, 1984, the Supply System was advised that the Securities and Exchange Commission had started a formal investigation into the circumstances surrounding the default on Nuclear Projects No.'s 4 and 5 revenue bonds.

Other Litigation and Commitments

The Supply System is involved in various claims, legal actions and contractual commitments not mentioned above as both a plaintiff and a defendant and in certain claims and contracts arising in the normal course of business for a large construction program. Although some suits, claims and commitments are significant in amount, final disposition is not determinable. In the opinion of management, the outcome of any such litigation, claims or commitments will not have a material adverse effect on the financial positions of the projects. The estimated cost of the projects may either be increased or decreased as a result of the outcome of these matters.

STATEMENT OF DEBT SERVICE REQUIREMENTS

	<i>Hanford Generating Project</i>			<i>Packwood Lake Hydroelectric Project</i>			<i>Nuclear Project No. 1</i>		
FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL*
1984	\$ 3,010	\$1,210	\$ 4,220	\$ 160	\$ 410	\$ 570	\$ 9,245	\$ 208,717	\$ 217,962
1985	3,125	1,114	4,239	170	404	574	9,785	208,211	217,996
1986	3,240	1,014	4,254	175	398	573	14,855	207,674	222,529
1987	3,255	913	4,168	180	391	571	15,470	206,652	222,122
1988	3,360	806	4,166	190	385	575	18,055	205,729	223,784
1989	3,485	693	4,178	195	378	573	18,970	204,564	223,534
1990	3,455	580	4,035	265	371	636	21,465	203,320	224,785
1991	5,065	425	5,490	275	361	636	62,560	201,877	264,437
1992	5,585	246	5,831	290	351	641	23,755	196,226	219,981
1993	5,835	58	5,893	300	340	640	25,560	194,547	220,107
1994	800	4	804	315	329	644	26,985	192,684	219,669
1995				330	318	648	28,550	190,667	219,217
1996				340	306	646	30,745	188,480	219,225
1997				360	293	653	38,080	185,949	224,029
1998				380	280	660	41,565	182,462	224,027
1999				400	266	666	45,455	178,573	224,028
2000				465	251	716	49,465	174,563	224,028
2001				490	235	725	53,920	170,104	224,024
2002				515	220	735	58,885	165,142	224,027
2003				540	198	738	51,135	159,602	210,737
2004				565	178	743	55,430	155,305	210,735
2005				590	158	748	60,600	150,137	210,735
2006				615	136	751	66,320	144,415	210,735
2007				640	114	754	72,665	138,071	210,735
2008				665	90	755	79,705	131,031	210,735
2009				690	66	756	87,525	123,213	210,738
2010				715	41	756	96,220	114,518	210,738
2011				267	15	282	105,855	104,883	210,738
2012				130	4	134	116,610	94,129	210,739
2013							118,635	82,105	200,740
2014							127,155	69,605	196,760
2015							142,820	55,476	198,296
2016							175,395	39,441	214,836
2017							194,005	20,831	214,836
2018									
	\$40,215	\$7,063	\$47,278	\$11,212	\$7,287	18,499	\$2,143,445	\$5,248,903	\$7,392,348

*Excludes payments of bond principal and interest made on July 1, 1983

	Nuclear Project No. 2			Nuclear Project No. 3			Nuclear Projects No.'s 4/5		
CAL AR	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL ^o	PRINCIPAL	INTEREST	TOTAL ^o
84	\$ 15,940	\$ 217,020	\$ 232,960	\$ 1,785	\$ 165,791	\$ 167,576	\$2,317,866		\$2,317,866
85	16,925	216,048	232,973	6,175	165,692	171,867	Refer to Note D—Termination of Nuclear Projects No.'s 4 and 5 and Default Under Bond Resolution, page 25, and Note E— Commitments and Contingencies, page 26.		
86	23,295	215,015	238,310	6,530	165,357	171,887			
87	24,925	213,399	238,324	8,925	165,001	173,926			
88	26,645	211,686	238,331	10,555	164,368	174,923			
89	28,510	209,818	238,328	11,315	163,579	174,894			
90	30,555	207,778	238,333	12,145	162,761	174,906			
91	82,800	205,539	288,339	13,050	161,901	174,951			
92	35,260	196,455	231,715	14,045	160,961	175,006			
93	37,980	193,758	231,738	15,125	159,932	175,057			
94	40,950	190,820	231,770	16,310	158,798	175,108			
95	44,225	187,602	231,827	17,615	157,546	175,161			
96	47,825	184,053	231,878	19,045	156,163	175,208			
97	65,575	180,144	245,719	22,595	154,637	177,232			
98	71,955	173,774	245,729	24,605	152,628	177,233			
99	79,330	166,666	245,996	26,810	150,427	177,237			
00	85,795	159,947	245,742	29,020	148,218	177,238			
01	93,290	152,468	245,758	31,475	145,773	177,248			
02	101,635	144,141	245,776	34,180	143,068	177,248			
03	93,055	134,854	227,909	37,095	140,057	177,152			
04	97,375	127,046	224,421	42,730	136,746	179,476			
05	106,765	117,655	224,420	45,995	132,503	178,498			
06	117,225	107,196	224,421	49,615	127,908	177,523			
07	122,655	95,576	218,231	49,675	122,946	172,621			
08	134,755	83,566	218,321	54,485	118,136	172,621			
09	148,200	70,217	218,417	59,810	112,810	172,620			
10	163,170	55,365	218,535	65,710	106,909	172,619			
11	179,835	38,822	218,657	72,265	100,355	172,620			
12	198,410	20,380	218,790	80,365	92,250	172,615			
13				89,490	83,126	172,616			
14				99,770	72,846	172,616			
15				111,370	61,252	172,622			
16				124,455	48,165	172,620			
17				139,235	33,382	172,617			
18				154,950	17,665	172,615			
	<u>\$2,314,860</u>	<u>\$4,476,808</u>	<u>\$6,791,668</u>	<u>\$1,598,320</u>	<u>\$4,509,657</u>	<u>\$6,107,977</u>	<u>\$2,317,866</u>		<u>\$2,317,866</u>

REPORT OF INDEPENDENT ACCOUNTANTS

Executive Board
Washington Public Power Supply System
Richland, Washington

We have examined the individual financial statements, as listed in the financial statements section of the table of contents, of Washington Public Power Supply System's Hanford Generating Project, Packwood Lake Hydroelectric Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Internal Service Fund for the year ended June 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note E to the financial statements, Washington Public Power Supply System Project No. 1 is negotiating with its contractors and suppliers to settle contract claims associated with an extended construction delay of the project. Due to the preliminary status of the settlement process, the ultimate amounts of such costs are not fully determinable at the present time.

As discussed in Note E to the financial statements, Washington Public Power Supply System Projects No.'s 4 and 5 are currently unable to meet Nuclear Projects No.'s 4 and 5 debts as they become due. Creditors may, through legal process, seek to reach assets or funds held by other projects of the Supply System or the revenues pledged thereto. Bond counsel to the Supply System indicated that the creditors of Nuclear Projects No.'s 4 and 5 will not be able to realize upon the assets of Projects No.'s 1, 2 and 3 necessary for the purposes of such projects or the Supply System or upon the revenues or funds relating to such projects, except to the extent they might obtain rights through a valid exercise of the sovereign police power of the State of Washington, or of the constitutional powers of the United States of America, or by a voluntary bankruptcy of the Supply System. Bond counsel's opinion is limited to assets of the projects located within the State of Washington, or as to which a court would apply the law of the State of Washington. Bond counsel is not able to determine at this time how a court of a state other than the State of Washington would treat assets of the projects located outside the State of Washington, if such court were to apply the law of a state other than the State of Washington. See Note E to the financial statements as to the ability of creditors of Nuclear Projects No.'s 4 and 5 to realize upon the assets of the Packwood Lake Hydroelectric Project and the Hanford Generating Project and the related revenues or funds.

As discussed in Note E to the financial statements, Washington Public Power Supply System Projects No.'s 1 and 3 are involved in disputes concerning costs shared with Washington Public Power Supply System Projects No.'s 4 and 5. Due to the preliminary status of these disputes, the ultimate amount of additional costs, if any, to be borne by Projects No.'s 1 and 3 are not determinable at the present time.

As also discussed in Note E to the financial statements, Washington Public Power Supply System is a party to litigation in which the Springfield ratepayers are challenging the decision of the U.S. District Court of Oregon, rendered on May 16, 1983, that all parties to the Net-Billing Agreements had authority to enter into them. This decision has been appealed. Because of the preliminary status of the appeal, Supply System counsel cannot predict the outcome of this litigation.

As explained in Note D, Participants Agreements pertaining to Washington Public Power Supply System Nuclear Projects No.'s 4 and 5 have been held to be invalid. Therefore, the Supply System is unable to recover the costs of Nuclear Projects No.'s 4 and 5 from the Participants and has reduced such costs to their estimated recoverable values in the accompanying balance sheets as of June 30, 1983. The ultimate recovery of such estimated amounts cannot presently be determined. In addition, as further discussed in Note D, accrued liabilities have been reflected in the accompanying balance sheets for estimated contract settlement and termination costs. Due to the preliminary nature of the settlement process, the ultimate amounts owing to creditors are not fully determinable at the present time. In addition, as explained in Note E, there are various other matters of litigation for which the outcome is not presently known.

In view of the significance of the matters discussed in the preceding paragraphs, we are unable to express, and we do not express, an opinion on the financial statements of the Supply System's Hanford Generating Project, Nuclear Project No. 1, Nuclear Project No. 2, Nuclear Project No. 3, Nuclear Projects No.'s 4 and 5, and the Internal Service Fund referred to above.

In our opinion, the financial statements present fairly the financial positions of Washington Public Power Supply System's Packwood Lake Hydroelectric Project at June 30, 1983, and the results of operations and changes in financial position of the Packwood Lake Hydroelectric Project for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year.

Ernst & Whinney

Seattle, Washington

September 23, 1983, except as to the following sections of Note E:

Uranium Supplier Litigation, January 4, 1984;

Inter-Project Claims, January 5, 1984;

Securities and Exchange Commission Investigation, January 12, 1984

1983 PLANT 2 MILESTONES

May	Uranium fuel arrived on site for inspection
June	Full-scale emergency drill
August	Nineteen candidate Senior Reactor Operators and Reactor Operators pass NRC exam
September	Major test of emergency core cooling system
October	Last plant system turned over from construction to operation Full operational site security implementation
November	Preoperational tests
December	Received operating license Fuel load

